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SUBJECT: LITHUANIA'S LABOR PARTY: UNDER NEW LEADERSHIP?

Classified By: Political/Economic Section Chief Rebecca Dunham for reasons 1.4 (b) and (d).

¶1. (C) Summary: The Labor Party, recently fallen from power amid scandal, elected former Economy Minister Kestutis Dauksys its new leader August 26. Dauksys called for changes to the way Labor runs itself, but continued publicly to link the party to its disgraced former leader. It seems clear that Labor is still anathema to most (but not all) other parties, but it may survive the bad news of the past few months. Some observers believe that it may be the centrist Social Liberal Party, not Labor, that will leave the Lithuanian political scene. End Summary.

Background

¶2. (U) Lithuania's scandal-prone Labor Party held its annual conference August 26. Conference participants elected Kestutis Dauksys (Ke-STOO-tis Dauk-SHEES) as Labor's new leader. The party has been in turmoil since its former leader, Viktor Uspaskich, fled the country amid allegations of corrupt party financing and tax evasion. His departure from the scene, and the defection of seven Labor MPs to a new party, contributed to the collapse of the Brazauskas government in June.

¶3. (U) As former Minister of Economy, Dauksys himself may not be immune from scandal even if he can escape his party's financing woes. The new Minister of Economy is currently investigating the improper appointment of tens of people to positions controlled by the Economy Ministry and looking into donations by state-owned companies (overseen by the Economy Ministry) to organizations linked to the Labor Party during Dauksys's tenure.

The Ballot

¶4. (SBU) From a safe haven in Russia, Uspaskich has been engaged in a fight with Lithuanian prosecutors -- often played out in the media -- over his role in the party's scandals. Prosecutors confirmed on August 30 that they had issued an arrest warrant for him. Uspaskich nevertheless had an important, if eerie, presence at the conference, addressing delegates by phone prior to the vote and urging them to support his former deputy Loreta Grauziniene. 5. (C) Dauksys beat out acting party chair Grauziniene and party deputy chair Vydas Gedvilas in the final vote. Grauziniene is close to Uspaskich, and glossed over the party's problems in her candidacy speech. Gedvilas, at the other end of the spectrum, called for wide-ranging efforts to clean up the party. Tellingly, his suggestion for a way out of the

party's current crisis was met with cries of "what crisis?" from many delegates. (He finished a distant third.) Dauksys took the middle road, but also said that it is impossible to separate Labor from Viktor Uspaskich.

Center Bloc?

15. (C) The morning of the conference, media reported that Social Liberal leader Paulauskas had made overtures to Labor, calling for the formation of a centrist bloc in parliament. Paulauskas, per local tradition, represented his party and addressed the conference, calling on delegates to contribute to responsible politics and to play a role in forming a centrist bloc. Social Liberal MP Vaclov Stankevici told us August 28 that Paulauskas had been pushing the idea of a center-leaning block for some time. He had previously floated it with both the Conservatives and the Liberal Movement, neither of which had shown any interest. Unfortunately, the former Parliament speaker's shopping around has only called attention to his reduced stature; one political observer told us that the future of the Social Liberal party is uncertain.

Reactions

16. (C) Defense Minister and Social Democrat powerhouse Juozas Olekas told the Ambassador August 28 that the ramifications of Dauksys's selection are still unclear. On the one hand, Dauksys is more acceptable to other parties than his predecessor; on the other, his public embrace of Uspaskich repels many political players here. Olekas, who also addressed the Labor conference, told Labor delegates that he hoped that "sooner or later" his party would be able to work with them. Two days later, he seemed to predict the party's demise, and told the Ambassador that he still sees the strong possibility that more MPs will defect from Labor in the Seimas. Andrius Kubilius, leader of the opposition Conservatives, was even more skeptical about Labor's future. He acknowledged that Labor and the Social Liberals have enough MPs to toy with the idea of forming a center block in parliament, but he said that the Social Liberal party was "based on being in parliament," and not on values. Thus, he argued, the party has no future.

Comment

17. (C) We doubt that Dauksys's election will move Labor beyond the Uspaskich era. Dauksys has longstanding personal and business relationship with Uspaskich. When Uspaskich left his post as Economy Minister under the Brazauskas government, he handpicked Dauksys to replace him. In our dealings with him, we found Dauksys to be oblivious to calls for economic reform -- he even challenged the need for Lithuania to attract more foreign investment in public settings. His close association with Uspaskich in the past, and immediate embrace of the exiled party leader after his election as party leader, makes us wonder whether the whole exercise was staged to ensure that Uspaskich retains control of Labor while giving the party and Dauksys the appearance of independence.

18. (C) For now, traditional parties inside and outside the government will avoid working with Labor. For the governing Social Democrats, the taint of Labor's scandal and trauma from its unhappy coalition with that party in the last government is still too fresh, and their support agreement with the opposition Conservatives prohibits Labor's participation in the coalition. All this could change, however, depending on the results of the municipal elections scheduled for February. If the electoral numbers require it, the Social Democrats could conceivably reassess their position and dump their agreement with the Conservatives for a coalition agreement with 29-MP Labor.

19. (C) Perhaps the most unexpected casualty of the Conference

may be Social Liberal leader Paulauskas. His approach to Labor, after falling out with the Social Democrats on the left and being rejected by the Liberal Movement and Conservatives on the right, suggests his desperation to return to power, whatever the cost. Even in a country that still embraces populist politics, he may have gone too far.

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